

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Mark Acton, Vice Chairman;
Ruth Y. Goldway;
Tony Hammond; and
Nanci E. Langley

Annual Compliance Report, 2014

Docket No. ACR2014

NOTICE OF POSTAL SERVICE'S FILING OF ANNUAL COMPLIANCE REPORT
AND REQUEST FOR PUBLIC COMMENTS

(Issued December 31, 2014)

I. INTRODUCTION

On December 29, 2014, the United States Postal Service (Postal Service) filed with the Commission, pursuant to 39 U.S.C. 3652, its Annual Compliance Report (ACR) for fiscal year (FY) 2014.¹ Section 3652 requires submission of data and information on the costs, revenues, rates, and quality of service associated with postal products within 90 days of the closing of each fiscal year. In conformance with other statutory provisions and Commission rules, the ACR includes the Postal Service's FY 2014 Comprehensive Statement, its FY 2014 annual report to the Secretary of the Treasury on the Competitive Products Fund, and certain related Competitive Products Fund

¹ United States Postal Service FY 2014 Annual Compliance Report, December 29, 2014 (FY 2014 ACR). Public portions of the Postal Service's filing are available on the Commission's website at <http://www.prc.gov>.

material. See *respectively*, 39 U.S.C. 3652(g), 39 U.S.C. 2011(i), and 39 CFR 3060.20–23. In line with past practice, some of the material in the FY 2014 ACR appears in non-public annexes.

The filing begins a review process that results in an Annual Compliance Determination (ACD) issued by the Commission to determine whether Postal Service products offered during FY 2014 are in compliance with applicable title 39 requirements.

II. OVERVIEW OF THE POSTAL SERVICE'S FY 2014 ACR

Contents of the filing. The Postal Service's FY 2014 ACR consists of a 51-page narrative; extensive additional material appended as separate folders and identified in Attachment One; and an application for non-public treatment of certain materials, along with supporting rationale, filed as Attachment Two. The filing also includes the Comprehensive Statement,² Report to the Secretary of the Treasury, and information on the Competitive Products Fund filed in response to Commission rules. This material has been filed electronically with the Commission, and some also has been filed in hard-copy form.

Scope of filing. The material appended to the narrative consists of: (1) domestic product costing material filed on an annual basis summarized in the Cost and Revenue Analysis (CRA); (2) comparable international costing material summarized in the International Cost and Revenue Analysis (ICRA); (3) worksharing-related cost studies; and (4) billing determinant information for both domestic and international mail. FY 2014 ACR at 2. Inclusion of these four data sets is consistent with the Postal Service's past ACR practices. As with past ACRs, the Postal Service has split certain materials into public and non-public versions. *Id.* at 2-3.

² In years prior to 2013, the Commission reviewed the Postal Service's reports prepared pursuant to 39 U.S.C. 2803 and 39 U.S.C. 2804 (filed as the Comprehensive Statement by the Postal Service) in its Annual Compliance Determination. However, as it did last year, the Commission intends to review these reports separately.

“Roadmap” document. A roadmap to the FY 2014 ACR appears as Library Reference USPS-FY14-9. This document provides brief descriptions of the materials submitted, as well as the flow of inputs and outputs among them; a discussion of differences in methodology relative to Commission methodologies in last year’s ACD; and a list of special studies and a discussion of obsolescence, as required by Commission rule 3050.12. *Id.* at 3.

Methodology. The Postal Service states that it has adhered to the methodologies historically used by the Commission subject to changes identified and discussed in a separate section of the roadmap document and in prefaces accompanying the appended folders. *Id.* at 4. Changes in analytical principles proposed by the Postal Service for use in the FY 2014 ACR are identified and summarized in a table. *Id.* at 4-5. The table omits more recent proposed changes that the Postal Service does not hope to implement until preparing reports for Fiscal Year 2015. *Id.* at 4.

Market dominant product-by-product costs, revenues, and volumes. Comprehensive cost, revenue, and volume data for all market dominant products of general applicability are shown directly in the FY 2014 CRA or ICRA. *Id.* at 6.

The FY 2014 ACR includes a discussion by class of each market dominant product, including costs, revenues, and volumes, workshare discounts and passthroughs responsive to 39 U.S.C. 3652(b), and FY 2014 incentive programs. *Id.* at 6-38.³ In addition, in response to Order No. 1427,⁴ the Postal Service also provides a schedule of future price increases for Standard Mail Flats. FY 2014 ACR at 20.

³ The Postal Service notes that a structural lag resulted from the implementation of prices from Docket Nos. R2013-10 and R2013-11 on January 26, 2014. Because of that lag, it is “unable to rely on any of the worksharing exceptions for certain workshare passthroughs exceeding 100 percent.” It states that it will correct those passthroughs as quickly as possible in future price adjustments. *Id.* at 6.

⁴ Docket No. ACR2010-R, Order on Remand, August 9, 2012 (Order No. 1427).

Market dominant negotiated service agreements. The FY 2014 ACR presents information on market dominant negotiated service agreements (NSAs). *Id.* at 37-38.

Forthcoming Information. The Postal Service represents that due to the unavailability of staff during the holiday season, it was unable to include certain information in this filing. It states that the following information will be filed with the Commission in “early January”:

- A description of all operational changes designed to reduce costs for Standard Mail Flats in FY 2014 as required by the Commission in the FY 2010 ACD. *Id.* at 19 n.7.
- A description of costing methodology or measurement improvements made to the Standard Mail Flats product in FY 2014 and an estimate of the financial effects of such changes as required by the Commission in the FY 2010 ACD. *Id.*
- A statement summarizing the historical and current fiscal year subsidy of the Standard Mail Flats product and an estimated timeline for phasing out that subsidy as required by the Commission in the FY 2010 ACD. *Id.*
- A detailed analysis of progress made in improving Periodicals cost coverage as required by the Commission in the FY 2013 ACD. *Id.* at 32 n.14.

The Postal Service is directed to provide this information no later than January 5, 2015.

Service performance. The Postal Service notes that the Commission issued rules on periodic reporting of service performance measurement and customer satisfaction in FY 2010. Responsive information appears in Library Reference USPS-FY14-29. *Id.* at 39.

Customer satisfaction. The FY 2014 ACR discusses the Postal Service’s approach for measuring customer experience and satisfaction; describes the methodology; presents a table with survey results; and compares the results from FY 2013 to FY 2014. *Id.* at 40-43.

Competitive products. The FY 2014 ACR provides costs, revenues, and volumes for competitive products of general applicability in the FY 2014 CRA or ICRA. For competitive products not of general applicability, data is provided in non-public Library References USPS-FY14-NP2 and USPS-FY14-NP27. The FY 2014 ACR also addresses the competitive product pricing standards of 39 U.S.C. 3633. *Id.* at 44-47.

Market tests; nonpostal services. The Postal Service discusses the market dominant market test conducted during FY 2014, the three competitive market tests conducted during FY 2014, and nonpostal services. *Id.* at 48-49.

III. PROCEDURAL STEPS

Statutory requirements. Section 3653 of title 39 requires the Commission to provide interested persons with an opportunity to comment on the ACR and to appoint an officer of the Commission (Public Representative) to represent the interests of the general public. The Commission hereby solicits public comment on the Postal Service's FY 2014 ACR and on whether any rates or fees in effect during FY 2014 (for products individually or collectively) were not in compliance with applicable provisions of chapter 36 of title 39 (or regulations promulgated thereunder). Commenters addressing market dominant products are referred in particular to the applicable requirements (39 U.S.C. 3622(d) and (e) and 3626); objectives (39 U.S.C. 3622(b)); and factors (39 U.S.C. 3622(c)). Commenters addressing competitive products are referred to 39 U.S.C. 3633.

The Commission also invites public comment on the cost coverage matters the Postal Service addresses in its filing; service performance results; levels of customer satisfaction achieved; and such other matters that may be relevant to the Commission's review.

Access to filing. The Commission has posted the publicly available portions of the FY 2014 ACR on its website at <http://www.prc.gov>.

Comment deadlines. Comments by interested persons are due on or before February 2, 2015. Reply comments are due on or before February 13, 2015. The Commission, upon completion of its review of the FY 2014 ACR, public comments, and other data and information submitted in this proceeding, will issue its ACD. Those needing assistance filing electronically may contact the Docket Section supervisor at 202-789-6846 or via email at prc-dockets@prc.gov. Inquiries about access to non-public materials should also be directed to the Docket Section.

Public Representative. Tracy Ferguson is designated to serve as the Public Representative to represent the interests of the general public in this proceeding. Neither the Public Representative nor any additional persons assigned to assist her shall participate in or advise as to any Commission decision in this proceeding other than in their designated capacity.

IV. ORDERING PARAGRAPHS

It is ordered:

1. The Commission establishes Docket No. ACR2014 to consider matters raised by the United States Postal Service's FY 2014 Annual Compliance Report.
2. The Postal Service is directed to provide the Commission with the material listed in the "Forthcoming Information" section of this Order no later than January 5, 2015.
3. Pursuant to 39 U.S.C. 505, the Commission appoints Tracy Ferguson as an officer of the Commission (Public Representative) in this proceeding to represent the interests of the general public.
4. Comments on the United States Postal Service's FY 2014 Annual Compliance Report to the Commission, including the Comprehensive Statement of Postal Operations and other reports, are due on or before February 2, 2015.

5. Reply comments are due on or before February 13, 2015.
6. The Secretary shall arrange for publication of this Order in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary